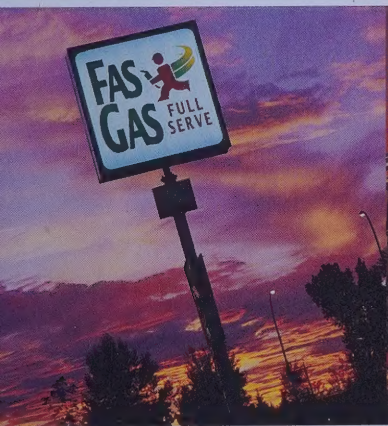

PARKLAND INCOME FUND 2002 ANNUAL REPORT

FUELING PERFORMANCE

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On the Cover

2002 marks Parkland's 25th year of service in western Canada. Shown on the front and back cover are the leading brands that contribute to our success.

Forward-Looking Statement

This annual report includes forward-looking statements regarding Parkland Income Fund's operations, anticipated financial performance, business prospects and strategies. Forward-looking information may involve words such as "believe", "expect", "anticipate", or similar words implying future outcomes. Readers are cautioned not to place undue reliance on forward-looking information because it is possible that predictions, forecasts and other forms of forward-looking information will not be achieved by Parkland Income Fund. Parkland Income Fund is under no obligation to update publicly or otherwise revise any forward-looking information.

Parkland Income Fund is an unincorporated, open-ended limited purpose mutual fund trust established under the laws of the Province of Alberta on April 30, 2002.

On June 28, 2002, the Fund acquired the fuel marketing, convenience stores and related ancillary businesses formerly owned by Parkland Industries Ltd. The conversion to a Fund was undertaken to enhance shareholder value, generate pre-tax cash flows, improve liquidity and provide improved access to growth capital in financial markets.

Parkland Income Fund, through Parkland Industries LP, is one of western Canada's largest independent marketers of transportation fuels. Our retail fuel marketing business operates under the Fas Gas brand, our wholesale fuel marketing under the RT Fuels brand, and our convenience stores under the Short Stop Food Stores brand.

Parkland has developed a geographically diverse network of fuel marketing and convenience stores in British Columbia, Alberta, Saskatchewan, Manitoba, the Yukon and Northwest Territories. We focus on serving our customers through our stations and stores in non-urban markets.

In 2002, Parkland celebrated its 25th anniversary of serving customers. Parkland was recently recognized by Alberta Venture magazine as one of Alberta's 30 fastest growing companies. Parkland is listed on the Toronto Stock Exchange under the trading symbol PKI.UN.

"To us, our success is measured by the exceptional value and service we provide to our customers and the consistent returns we deliver to our unitholders. Either way, it's about driving value home."

Andrew B. Wiswell, *President and CEO*

"As one of Western Canada's largest independent fuel marketers, Parkland operates or supplies a total of 446 service stations of which 215 are retail sites and 231 are independently owned branded dealers."

MANAGEMENT'S DISCUSSION *and* ANALYSIS

The following discussion and analysis of the results of operations and financial condition of Parkland Income Fund should be read in conjunction with the audited Financial Statements for the six month period ended December 31, 2002.

Parkland Income Fund (the "Fund" or "Parkland") is an unincorporated, open-ended limited purpose mutual fund trust established under the laws of the Province of Alberta on April 30, 2002. The Fund was created to acquire the fuel marketing, convenience stores and related ancillary businesses formerly owned by Parkland Industries Ltd. This acquisition was completed on June 28, 2002 through a Plan of Arrangement that resulted in the previous Parkland Industries Ltd. shareholders indirectly exchanging their shares for Units in the Fund or Class B Limited Partnership Units in Parkland Holdings Limited Partnership ("LP Units"), a limited partnership controlled by the Fund.

The accounts for Parkland Industries Ltd. are included in the financial statements for the period July 1, 2001 to June 28, 2002 on a continuity of interests basis as if the Fund had existed since July 1, 2001. The comparative information for prior years is for Parkland Industries Ltd. All per unit amounts have been restated to reflect the effective two for one split which occurred June 28, 2002.

Fiscal Periods

Consolidated Results

Net earnings for the six month period ended December 31, 2002 were $9.4 million ($ 0.78 per unit basic and diluted), as compared to $11.9 million in the year ended June 30, 2002 ($1.08 per unit basic and diluted) and $7.3 million for the year ended June30, 2001 ($0.67 per unit basic and diluted). The decreased earnings in the most recent period are primarily attributable to the change from a twelve month period to a six month period, partially offset by the reduction in corporate income taxes achieved by converting to an Income Fund. Results from fiscal 2001 were negatively affected by the premium paid for condensate feedstock at the Fund's Bowden refinery.

Review of Operations

Parkland's Business

As one of western Canada's largest independent fuel marketers, Parkland operates or supplies a total of 446 service stations as compared with 454 at June 30, 2002. The December 2002 total consists of 215 retail stations operated under the Fas Gas brand and 231 independently owned wholesale supply accounts operated under the RT Fuels brand. Products sold through the Company's network of service stations include gasoline and diesel fuel as well as propane at selected sites. The slight decrease in sites is a result of recent initiatives to close marginal locations as leases at those sites expired.

Short Stop Food Stores, Parkland's branded convenience store chain being developed at select locations across western Canada, currently operates at 28 redeveloped locations. Convenience store operations turned profitable in the quarter ended June 30, 2002, setting the stage for stronger ongoing contributions. The Fund expects to add four more convenience store locations in 2003 as part of its growth strategy.

Competition and Market Positioning

The wholesale and retail gasoline business is highly competitive, with margin ultimately dependent on the spread between crude oil and retail gasoline prices. Due to its focus on smaller markets, Parkland has lower exposure to the more competitive urban markets where the retail gasoline market is dominated by major oil companies and by more recent entrants such as grocery chains and large retailers. This non-urban focus allows the Fund to operate in markets where overall competition is less intense, pricing and margins are more stable, operating costs are lower and real estate is less expensive.

Fixed Assets

During the six months ended December 31, 2002, the Fund made investments of $6.6 million in fixed assets. Approximately 63 percent of this amount was for the Short Stop Food Store development program including new or renovated buildings, store fixtures and equipment and the associated fuel marketing equipment at the convenience store sites.

In the six month period ended December 31, 2002, the Fund adopted new accounting policies for goodwill and intangible assets as required by changes in relevant guidance in the CICA Handbook. As a result of this change, the Fund reversed $3.6 million of goodwill which was reported at June 30, 2002 and correspondingly decreased opening capital by a similar amount. Based on a historical review, the Fund expects that the most common intangibles acquired are customer lists, supply contracts and non-competition clauses which would typically be amortized over a three to five year period after the acquisition.

Income Taxes

The income tax provision was $1.2 million for the six months ended December 31, 2002 as compared to $7.2 million for the year ended June 30, 2002. As a result of the conversion to an income fund structure, Parkland has been able to significantly reduce taxes payable as taxes on distributions are paid by the unitholders of the Fund or the LP.

Calendar Years

To be consistent with other income funds, the fiscal year end of the Fund was changed from June 30 to December 31 effective for the period ended December 31, 2002. As such, the comparative information included in the audited Financial Statements is for

dissimilar periods. Additionally, the comparative Financial Statements include significant provisions for income taxes which are generally no longer incurred in the Fund structure except to the extent earnings are not distributed to unitholders in a given year. Management believes the most relevant information for analyzing past results and providing insight into possible future results is a comparison of recent calendar year over year results before unusual items and income taxes. The pro-forma information below for the calendar years has been compiled from previously issued quarterly financial results on this basis.

Financial Results

On a comparable calendar year basis the net earnings before tax were $17.5 million, down from a record $19.1 million in 2001. Although fuel margins were consistent and margins from convenience store merchandise were higher in 2002, additional expenses led to a $1.6 million decrease in net earnings before tax and a $2.5 million decrease in EBITDA.

Volumes

Overall gasoline and diesel volumes in calendar 2002 were consistent with the previous calendar year, with slight increases in retail volumes offset by lower wholesale volumes. Retail volumes are driven by the number of stations in operation, general business and economic conditions, weather and competitive conditions in certain markets. Wholesale volumes are more dependent on general industry supply and demand conditions.

Sales Revenue

Sales for the year ended December 31, 2002 were $472 million, which was comparable to the prior year. Fuel sales revenue varies with overall average crude prices,

Years Ended December 31, (000's except volume and per unit amounts)	2002	2001	2000
Sales volume (millions of litres)	897	903	867
Net Sales and Operating Revenues	$ 471,730	$ 471,773	$ 451,083
Cost of Sales and Operating Expenses	401,020	401,942	399,598
Gross Margin	70,710	69,831	51,485
Expenses			
Marketing, General and Administrative	44,932	41,594	39,388
Amortization of Fixed Assets	7,483	8,277	8,622
Interest on Long-term Debt	800	832	620
	53,215	50,703	48,630
Earnings Before Unusual Items and Income Taxes	$ 17,495	$ 19,128	$ 2,855
Per Unit – Basic	$ 1.47	$ 1.75	$ 0.26
– Diluted	$ 1.47	$ 1.67	$ 0.25
EBITDA *	$ 25,778	$ 28,237	$ 12,097

* EBITDA is not a defined measure under Canadian Generally Accepted Accounting Principles (GAAP). In this document, EBITDA means Earnings before Interest Expense, Income Taxes and Amortization.

retail and wholesale margins and volumes. In 2002 fuel sales revenue declined to $449.7 million from $457.9 million as a result of small declines in volumes and average fuel costs. This decrease was more than offset by convenience store merchandise sales which increased to $22.0 million in 2002 from $13.9 million in 2001. Convenience store merchandise sales were up as a result of additional stores, higher average sales per store and increased retail margins.

Margins

For the calendar year ended December 31, 2002, cost of sales remained consistent with 2001 at $401 million. Suspending operations of the Bowden refinery reduced fuel costs as replacement fuel volumes were acquired from alternative sources at lower average costs. These savings, when combined with lower volumes, resulted in a $5.9 million reduction on fuel cost of sales. Convenience store merchandise cost of sales increased to $16.3 million in 2002 from $10.4 million in 2001.

These offsetting factors led to gross margins of $70.7 million in 2002, which was marginally higher than the $69.8 million achieved in 2001. The maturing of the new convenience stores together with ongoing expansion of the convenience store network will reduce the Fund's dependence on fuel margins.

A key driver to margins is the Fund's ability to competitively purchase both fuel and convenience store merchandise. As one of the largest independent fuel retailers in western Canada, the Fund has established positive relationships with the key fuel suppliers in its market area and is currently in the sixth year of a long-term contract with its principal supplier. This contract provides the Fund with a consistently available source of supply at competitive prices. Additionally, the growth in the convenience store network has improved the Fund's relationships with wholesalers and merchandise suppliers, providing better pricing, increased incentives and additional promotional support.

Expenses

Marketing, general and administrative expenses were $44.9 million for the year ended December 31, 2002, an increase of 7.9 percent over 2001 expenses of $41.6 million. A significant component of the increase is convenience store operating costs, which increased to $9.4 million in 2002 from $7.2 million in 2001. These expenses include labour and other costs related to fuel retailing at the new convenience stores. Other increases in expenses related to new fuel site openings, discretionary station maintenance, accelerated site remediation costs and higher incentive compensation.

Also included in marketing, general and administrative expenses for the 2002 calendar year are $838,000 for environmental remediation expenditures as compared to $548,000 in 2001. As the Fund redevelops a site with a new Short Stop store, it is our policy that contamination from previous operations be removed prior to reconstruction. In 2002, the Fund also made decisions not to renew certain leases at marginal sites and remediation costs were incurred. It is expected that environmental expenditures will be reduced in 2003.

Fixed Assets and Amortization

On a calendar year basis amortization declined to $7.5 million from $8.3 million in 2001. This decrease is a result of no amortization being taken on the refinery processing equipment following the suspension of operations at the refinery in September 2001. The Fund also discontinued amortizing goodwill for the fiscal period commencing July 1, 2002, resulting in a further $372,000 decrease in amortization. Partially offsetting

these reductions was an increase in amortization of $689,000 primarily due to the continued expansion of the convenience store network. This trend is expected to continue as new convenience stores are added.

Parkland owns 120 of the sites utilized in the Fas Gas retail chain, an industrial property in Red Deer, Alberta, used as a trucking base and maintenance facility, and a fuel terminal facility in Whitehorse, Yukon.

Parkland runs its own fleet of trucks to meet its fuel hauling needs. The majority of its 39 power units are owned by the Fund, as well as virtually all of the more than 70 trailer units.

On December 16, 1998, the Fund entered into a Letter of Intent to sell its refinery in Bowden, Alberta to the Blood Tribe/Kainaiwa Specific Claim Trust No. 1 of Standoff, Alberta. The offer is subject to satisfying a number of conditions, the probability and timing of which cannot be determined. If the conditions are satisfied and the transaction proceeds consistent with the Letter of Intent, the Fund would expect to realize an after tax gain on sale of approximately $15 million.

Operations at the refinery have been suspended since September 2001 as a result of a continuing premium for the condensate feedstock used by the refinery relative to the price of crude oil. However, the Fund continues to keep a core staff at the refinery to maintain it in a state of readiness in the event of a sale or return to production. Costs of approximately $2 million were incurred in 2002 to maintain this facility.

In addition to the potential sale of the refinery, the Fund is pursuing alternative uses for this site. Should the sale not be consummated and no economically viable alternative use be determined, the Fund may have to decommission this site at some future date. In this event it is estimated that site decommissioning costs would be funded by equipment salvage, product recoveries and ongoing annual costs savings at the site.

Quarterly Financial Information

Three Months Ended (000's except per unit amounts)	MARCH 31	JUNE 30	SEPTEMBER 30	DECEMBER 31
2002				
Net sales and operating revenues	$ 88,284	$ 123,219	$ 141,004	$ 119,223
Earnings before unusual items and income taxes	$ 924	$ 5,939	$ 7,595	$ 3,037
Net earnings	$ 774	$ 3,908	$ 7,475	$ 1,938
Earnings per unit	$ 0.07	$ 0.35	$ 0.62	$ 0.16
2001				
Net sales and operating revenues	$ 106,133	$ 134,584	$ 131,421	$ 99,635
Earnings before unusual items and income taxes	$ (411)	$ 7,275	$ 8,524	$ 3,740
Net earnings (loss)	$ (264)	$ 4,752	$ 5,028	$ 2,182
Earnings (loss) per unit	$ (0.02)	$ 0.43	$ 0.45	$ 0.18

The quarterly financial information demonstrates typical seasonal trends in the Fund's business. In the first quarter fuel demand is relatively weak which drives lower volume and margin. The second and third quarters significantly improve with spring and summer driving seasons and increased industrial and farm activity creating higher demand, while the fourth quarter sees a return to more average market conditions. There have been no changes in the Fund's business that would indicate this seasonality will not continue in future periods.

Liquidity and Capital Resources

Working Capital

Parkland's working capital decreased to $3.1 million at December 31, 2002 as compared to $8.7 million at June 30, 2002. The decrease is primarily the result of the capital expenditures made during the period and payments on existing term debt. The Fund continues to have strong operating cash flow to service its distribution commitments. The cash balance at December 31, 2002 of $2.6 million is significantly decreased from the June 30, 2002 balance of $18.6 million, primarily related to the timing of key supplier payments.

Financing Activities

In October 2001, Parkland changed its primary lender to HSBC Bank Canada. This change resulted in Parkland receiving proceeds from long-term debt instruments of $10.3 million. Coincident with this financing, Parkland repaid $9.8 million of long-term debt, primarily to retire debt from a previous lender.

In the six month period ended December 31, 2002, Parkland decreased its long-term debt by $1.3 million as a result of normal repayment of existing term debt offset by new capital leases of $475,000. At December 31, 2002, Parkland had $17.7 million in long-term debt (including current portions) which is 0.69 times EBITDA. Management believes that cash flow from operations will be adequate to fund maintenance capital, interest, miscellaneous taxes and targeted distributions. Growth capital requirements are generally planned to be funded by existing cash balances, debt or the issue of additional units.

Interest

For the year ended December 31, 2002 interest on long-term debt was $800,000 as compared to $832,000 for the year ended December 31, 2001. Debt levels have remained comparable but interest costs have been reduced as a result of lower interest rates. Approximately 89 percent of the Fund's long-term debt bears interest at variable rates linked to prime.

Dividends and Distributions

Commencing in July 2002, the Fund established a monthly distribution policy whereby holders of record on the last day of a month would receive a distribution on the fifteenth day of the following month. The monthly distribution amount remained consistent at $0.14 per unit from July 2002 through December, 2002 resulting in total distributions of $10.2 million. Although it is typical for the Fund's cash flow to have seasonal fluctuations, it is management's current intention to pay consistent distributions throughout the year based on estimated annual cash flows. Actual performance and forecasts are reviewed regularly throughout the year to assess business conditions and the appropriateness of the distribution amount.

Coincident with the conversion to an income fund on June 28, 2002, Parkland paid a special distribution of $1.00 per share ($0.50 per unit) to the Parkland shareholders who exchanged their shares.

Prior to its conversion to an income fund, Parkland had continued its semi-annual dividend program, with dividends of $0.10 per share paid on July 31, 2001 and January 31, 2002.

Business Risks

Retail Pricing, Crude Oil Costs and Margin Erosion

Retail pricing for motor fuels is very competitive, with major oil companies and new entrants such as grocery chains and large retailers active in the marketplace. From time to time, factors such as competitive pricing, seasonal over-supply and lack of responsiveness of retail pricing to changes in crude oil costs can lead to lower margins in our business or in certain market areas.

Environmental

The operation of service stations, refinery facilities and petroleum transport trucks carry an element of environmental risk. To prevent environmental incidents from occurring the Fund has extensive environmental procedures and monitoring programs at all of its facilities. To mitigate the impact of a major accident, Parkland has emergency response programs in place and provides its employees with extensive training in operational responsibilities.

Economic Conditions

Demand for transportation fuels fluctuates to a certain extent with economic conditions. In a general economic slowdown there is less recreational and industrial travel and consequently less demand for fuel products, which may adversely affect the Fund's revenue, profitability and ability to pay distributions.

Technology

Industry continues to develop alternatives to fossil fuels for motive transport and continues to improve the efficiency of internal combustion engines. To date, no economically viable alternative to the transportation fuels the Fund markets is widely available. Should such an alternative become widely available, it may negatively affect the demand for the Fund's products.

Dependence on Key Suppliers

The Fund's business depends to a large extent on a small number of fuel suppliers, some of which are parties to long-term supply agreements. An interruption or reduction in the supply of products and services by such suppliers could adversely affect the Fund's revenue and distributions in the future.

MANAGEMENT'S RESPONSIBILITY *for* FINANCIAL STATEMENTS

The accompanying financial statements of Parkland Income Fund have been prepared by management in accordance with generally accepted accounting principles. Parkland's accounting procedures and related systems of internal control are designed to provide reasonable assurance that its assets are safeguarded and its financial records are reliable. In recognizing that the Fund is responsible for both the integrity and objectivity of the financial statements, management is satisfied that these financial statements have been prepared accordingly and within reasonable limits of materiality. Further, management is satisfied that the financial information throughout the balance of this annual report is consistent with the information presented in the financial statements.

Heywood, Holmes & Partners LLP have been appointed by the unitholders of Parkland to serve as the Fund's external auditors. They have examined the financial statements of the Fund for the six month period ended December 31, 2002 and the years ended June 30, 2002 and 2001.

The Audit Committee has reviewed these statements with management and the auditors, and has reported to the Board of Directors. The Board has approved the information contained in the financial statements of Parkland which are included in this annual report.

John G. Schroeder
Vice President, Finance and CFO
Red Deer, Alberta
January 31, 2003

Kelly G. Collier
Controller, Retail
Red Deer, Alberta

AUDITORS' REPORT

To the Unitholders of Parkland Income Fund

We have audited the consolidated Balance Sheets of Parkland Income Fund as at December 31, 2002 and June 30, 2002 and the consolidated Statements of Earnings, Retained Earnings and Unitholders' Capital and Cash Flows for the six month period ended December 31, 2002 and each of the years in the two-year period ended June 30, 2002. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2002 and June 30, 2002 and the results of its operations and cash flows for the six months ended December 31, 2002 and each of the years in the two-year period ended June 30, 2002 in accordance with Canadian generally accepted accounting principles.

Heywood Holmes & Partners LLP

Chartered Accountants

Red Deer, Alberta
January 31, 2003

FINANCIAL STATEMENTS

Consolidated Balance Sheet

($ Thousands)	December 31, 2002	June 30, 2002
Assets		
Current Assets		
Cash	$ 2,647	$ 18,647
Accounts receivable	15,511	23,937
Inventories	18,877	18,292
Future income taxes	134	134
Prepaid expenses	1,285	1,447
	38,454	62,457
Other	3,646	3,548
Fixed Assets (Note 2)	84,065	81,800
Goodwill (Note 3)	–	3,703
	$ 126,165	$ 151,508
Liabilities		
Current Liabilities		
Accounts payable	$ 29,684	$ 48,520
Corporate taxes payable	978	1,920
Long-term debt - current portion (Note 4)	4,661	3,292
	35,323	53,732
Long-term Debt (Note 4)	13,000	15,653
Site Restoration Accrual	245	360
Future Income Taxes	6,559	6,359
	55,127	76,104
Unitholders' Capital		
Class B Limited Partners' Capital (Note 6)	32,654	42,952
Unitholders' Capital (Note 6)	38,384	32,452
	71,038	75,404
	$ 126,165	$ 151,508

On Behalf of the Board

Director

Director

Consolidated Statement of Earnings

($ Thousands)	Six months December 31, 2002	Twelve months June 30, 2002	Twelve months June 30, 2001
Net sales and operating revenues	$ 260,228	$ 442,559	$ 494,482
Cost of sales and operating expenses	222,303	371,047	434,368
Gross margin	37,925	71,512	60,114
Expenses			
Marketing, general and administrative	23,153	43,926	40,273
Amortization	3,678	7,668	8,808
Interest on long-term debt	462	793	618
	27,293	52,387	49,699
Earnings before unusual items	10,632	19,125	10,415
Gain on sale of listed securities	–	–	795
Earnings before income taxes	10,632	19,125	11,210
Income taxes (Note 7)			
Current	1,019	6,430	5,193
Future	200	804	(1,308)
	1,219	7,234	3,885
Net earnings	$ 9,413	$ 11,891	$ 7,325

Per unit information: (Note 1)

Consolidated Statement of Retained Earnings and Unitholders' Capital

($ Thousands)	SIX MONTHS DECEMBER 31, 2002	TWELVE MONTHS JUNE 30, 2002	TWELVE MONTHS JUNE 30, 2001
Retained Earnings, beginning of period	$ –	$ 50,059	$ 43,821
Net earnings	9,413	11,891	7,325
Allocation to Class B Limited Partners	(4,760)	(33,772)	–
Allocation to Unitholders	(4,653)	(25,123)	–
Dividends paid	–	(1,093)	(1,087)
Future tax recovery on Reorganization	–	897	–
Reorganization costs, net of current tax of $737	–	(2,859)	–
Retained earnings, end of period	–	–	50,059
Class B Limited Partners' Capital			
Balance, beginning of period	42,952	–	–
Prior period adjustment (Note 3)	(2,053)	–	–
Balance, beginning of period as restated	40,899	–	–
Allocation of retained earnings	4,760	33,772	–
Issued upon exchange of common shares	–	12,645	–
Distribution to partners	(5,151)	(3,465)	–
Exchanged for Fund Units	(7,854)	–	–
Balance, end of period	32,654	42,952	–
Unitholders' Capital			
Balance, beginning of period	32,452	–	–
Prior period adjustment (Note 3)	(1,540)	–	–
Balance, beginning of period as restated	30,912	–	–
Allocation of retained earnings	4,653	25,123	–
Issued upon exchange of common shares	–	9,407	–
Distribution to unitholders	(5,035)	(2,578)	–
Units issued as special compensation	–	500	–
Exchange of Limited Partnership Units	7,854	–	–
Balance, end of period	38,384	32,452	–
	$ 71,038	$ 75,404	$ 50,059

Consolidated Statement of Cash Flows

($ Thousands)	SIX MONTHS DECEMBER 31, 2002	TWELVE MONTHS JUNE 30, 2002	TWELVE MONTHS JUNE 30, 2001
Cash Provided By (used for) Operations			
Net earnings	$ 9,413	$ 11,891	$ 7,325
Add (deduct) non-cash items			
Amortization	3,678	7,668	8,808
Gain on sale of listed securities	–	–	(795)
Future taxes	200	804	(80)
Cash flow from operations	13,291	20,363	15,258
Net changes in non-cash working capital (Note 12)	(11,775)	4,294	(3,651)
Cash from operating activities	1,516	24,657	11,607
Financing Activities			
Proceeds from long-term debt	476	10,285	9,309
Long-term debt repayments	(1,760)	(9,809)	(2,885)
Proceeds of share issue	–	5,410	234
Reorganization costs, net of tax	–	(2,859)	–
Repurchase of shares	–	(80)	(40)
Special compensation units	–	500	–
Distributions to unitholders	(10,186)	(6,043)	–
Dividend payments	–	(1,093)	(1,087)
Cash from (used for) financing activities	(11,470)	(3,689)	5,531
Investing activities			
Investment in other assets	(97)	(120)	(1,282)
Purchase of goodwill	–	–	(86)
Purchase of fixed assets	(6,565)	(11,089)	(16,441)
Proceeds on sale of fixed assets	731	903	985
Proceeds on sale of listed securities	–	–	6,780
Flow through of income tax recovery on sale of listed securities	–	–	(1,228)
Site restoration accrual	(115)	205	(26)
Cash (used for) investing activities	(6,046)	(10,101)	(11,298)
Increase (decrease) in cash	(16,000)	10,867	5,840
Cash, beginning of period	18,647	7,780	1,940
Cash, end of period	$ 2,647	$ 18,647	$ 7,780

NOTES *to* CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002

Dollar amounts presented in tables are in thousands, except per unit information.

Significant Accounting Policies

Basis of Presentation

Parkland Income Fund (the "Fund" or "Parkland") is an unincorporated, open-ended limited purpose mutual fund trust established under the laws of the Province of Alberta on April 30, 2002. The Fund was created to acquire the fuel marketing, convenience store and related ancillary businesses formerly owned by Parkland Industries Ltd. This acquisition was completed on June 28, 2002 through a Plan of Arrangement that resulted in the previous Parkland Industries Ltd. shareholders indirectly exchanging their shares for Units in the Fund or Class B Limited Partnership Units in Parkland Holdings Limited Partnership ("LP Units"), a limited partnership controlled by the Fund.

The accounts for Parkland Industries Ltd. are included for the period July 1, 2001 to June 28, 2002 on a continuity of interests basis as if the Fund had existed since the beginning of the year. The comparative information for the year ended June 30, 2001 is for Parkland Industries Ltd.

Principles of Consolidation

The consolidated financial statements include the accounts of all wholly owned subsidiaries, partnerships and trusts. All significant accounts and transactions between consolidated entities are eliminated. The excess of the consideration paid for the investments in subsidiary entities over the underlying net book values at the dates of acquisition is attributed to the related assets acquired and is amortized over the life of these assets.

The LP Units are, to the greatest extent possible, the economic equivalent to a Unit in the Fund. They are exchangeable by the holder on a one-for-one basis into Units in the Fund until June 30, 2008. In certain circumstances, and at any time after June 30, 2008, the Fund may compel the exchange of the LP Units. As such, the LP Units are treated as being equivalent to Fund Units.

Use of Estimates

The preparation of the financial statements necessarily involves the use of estimates and approximations. Should the underlying assumptions change, the actual amounts could differ from those estimated.

Indirect Method

The Fund follows the indirect method in reporting its cash flows from operating activities.

Inventories

The Fund values its inventories at the lower of cost and market value. The Fund uses the last-in, first-out (LIFO) method of determining the cost of product inventory.

Amortization

Amortization is provided for on a straight line basis over the estimated useful lives of assets at the following annual rates:

Land improvements	4%
Buildings	5%
Refining equipment (Note 11)	5%
Equipment	10%

Income Taxes

Income earned directly by the Limited Partnership is not subject to income taxes as its income is taxed directly to the Limited Partnership unitholders or to the Fund unitholders. Income taxes incurred by taxable entities controlled by the Fund and those incurred prior to the formation of the Fund are accounted for using the future method. Under this method, the Fund recognizes a future tax liability whenever recovery or settlement of the carrying amount of an asset or liability would result in future income tax outflow. Similarly, the Fund recognizes a future income tax asset whenever recovery or settlement of the carrying amount of an asset or liability would generate future income tax reductions.

Current future income tax assets or liabilities arise due to the difference in measurement of product inventories using the LIFO method for accounting purposes and the first-in, first-out (FIFO) method for income tax purposes. Long-term future tax liabilities arise primarily due to the provision for amortization for income tax purposes exceeding the amount recorded in the accounts.

Long-Term Debt

Capital lease obligations, which relate to transactions which are similar in nature to a purchase, are capitalized and included in long-term debt.

Site Restoration

Site restoration costs are based on engineering estimates taking into account alternative procedures consistent with legal requirements, industry practices and available technology.

Estimated site restoration costs of acquired sites are recorded at date of acquisition and actual costs are charged to the accumulated provision as incurred. Site restoration costs of existing sites are charged to operations in the year incurred.

Earnings Per Unit

Effective June 28, 2002, the outstanding shares of Parkland Industries Ltd. were exchanged for either two Fund units or two LP Units.

Basic earnings per unit is calculated on the weighted average number of units outstanding for the period, adjusted for the effective 2 for 1 split.

Diluted earnings per unit are calculated by application of the Treasury Stock Method. Under this method, the units are calculated based upon the weighted average number of units outstanding for the period plus the dilutive effect of the exercise of those employee stock options which were "in-the-money" during the period.

Revenue

The Fund recognizes revenues on its sale of goods when title passes to the purchaser.

1. Earnings Analysis and Earnings per Unit

Six months December 31, 2002	OPERATIONS	UNUSUAL ITEMS	TOTAL OPERATIONS
Earnings before tax	$ 10,632	$ –	$ 10,632
Income taxes			
Current	1,019	–	1,019
Future	200	–	200
Total income taxes	1,219	–	1,219
Net earnings	$ 9,413	$ –	$ 9,413
Earnings per unit – basic	$ 0.78	$ –	$ 0.78
– diluted	$ 0.78	$ –	$ 0.78

Twelve months June 30, 2002	OPERATIONS	UNUSUAL ITEMS	TOTAL OPERATIONS
Earnings before tax	$ 19,125	$ –	$ 19,125
Income taxes			
Current	6,430	–	6,430
Future	804	–	804
Total income taxes	7,234	–	7,234
Net earnings	$ 11,891	$ –	$ 11,891
Earnings per unit – basic	$ 1.08	$ –	$ 1.08
– diluted	$ 1.08	$ –	$ 1.08

Twelve months June 30, 2001	OPERATIONS	UNUSUAL ITEMS	TOTAL OPERATIONS
Earnings before tax	$ 10,415	$ 795	$ 11,210
Income taxes (recovery)			
Current	3,887	1,306	5,193
Future	(80)	(1,228)	(1,308)
Total income taxes	3,807	78	3,885
Net earnings	$ 6,608	$ 717	$ 7,325
Earnings per unit – basic	$ 0.60	$ 0.07	$ 0.67
– diluted	$ 0.58	$ 0.06	$ 0.64

	DECEMBER 31, 2002	JUNE 30, 2002	JUNE 30, 2001
Equivalent units outstanding at beginning of period	12,126,713	10,930,176	10,871,376
Weighted average of equivalent units repurchased pursuant to normal course issuer bid	–	(9,958)	(6,608)
Weighted average of equivalent units issued pursuant to exercise of employee stock options	–	78,382	28,370
Weighted average of units issued as special compensation	–	229	–
Denominator utilized in basic earnings per unit	12,126,713	10,998,829	10,893,138
Incremental equivalent units outstanding that were "in-the-money"	–	–	535,972
Denominator utilized in diluted earnings per unit	12,126,713	10,998,829	11,429,110

2. Fixed Assets

December 31, 2002	COST	ACCUMULATED AMORTIZATION	NET BOOK VALUE
Land	$ 13,585	$ –	$ 13,585
Land improvements	5,675	1,506	4,169
Buildings	20,337	7,205	13,132
Refining equipment	49,486	27,579	21,907
Equipment	60,034	28,762	31,272
	$ 149,117	$ 65,052	$ 84,065

June 30, 2002	COST	ACCUMULATED AMORTIZATION	NET BOOK VALUE
Land	$ 13,623	$ –	$ 13,623
Land improvements	5,243	1,483	3,760
Buildings	19,419	7,118	12,301
Refining equipment	49,486	27,547	21,939
Equipment	57,331	27,154	30,177
	$ 145,102	$ 63,302	$ 81,800

3. Goodwill

During the fiscal period ended December 31, 2002, the Fund adopted changes in accounting policies for goodwill and intangible assets as prescribed by changes to CICA Handbook Sections 3062, 3063 and 1581. Prior to the adoption of these policies, the Fund recorded any excess of consideration paid over the fair value of assets acquired as goodwill. This goodwill was then amortized on a straight-line basis over 10 years.

As a component of this change, assets initially recorded as goodwill were reviewed and, where relevant, reclassified as other intangible assets including customer lists, leases and non-competition clauses. The amortization period for these intangible assets was also reviewed to determine if it was consistent with the 10 year period utilized for goodwill. Additionally, the Fund performed impairment tests for the asset groups acquired to determine if any remaining goodwill and intangible assets required the recognition of an impairment loss.

As a result of this change in accounting policy, the Fund has reduced opening unitholders' capital by $3,593,435. Prior years statements have not been restated.

4. Long-Term Debt

	DECEMBER 31, 2002	JUNE 30, 2002
Bank loan secured by an assignment of accounts receivable, inventories and demand debentures creating a first fixed charge over specific fixed assets and floating charge upon all other assets. The loan is repayable in monthly installments of $37,600 including interest at prime plus 0.35 percent.	$ 1,565	$ 1,754
Mortgages payable in monthly installments totalling $128,753 including interest. Interest rates vary from 7.5 percent to 8.5 percent and prime plus 0.7 percent to prime plus 3.0 percent per annum. The mortgages are secured by real properties with a net book value of $9,852,000 and mature at various dates ending April 27, 2009.	8,082	8,642
Conditional sales contracts, equipment loans and capital leases payable in monthly installments totalling $158,262 including interest varying from 5.620 percent to 10.70 percent and prime plus 0.35 percent per annum. The contracts are secured by equipment with a net book value of $7,633,814 and mature at various dates ending November 30, 2006.	7,607	8,061
Unsecured notes repayable in monthly installments totalling $15,625. The notes are discounted at 6.0 percent per annum.	407	488
	17,661	18,945
Less current portion	4,661	3,292
	$ 13,000	$ 15,653

Estimated principal repayments for the next five years are:

2003	$ 4,661
2004	2,813
2005	2,826
2006	4,888
2007	969
Thereafter	1,504
	$ 17,661

For the six months ended December 31, 2002 and the years ended June 30, 2002 and 2001, the Fund did not incur net interest expense on working capital borrowings, as average monthly cash balances exceeded average borrowings.

The Fund has outstanding letters of credit totalling $12,800,000 (June 30, 2002 - $10,780,630) which mature October 21, 2003.

5. Capital Stock

Effective June 28, 2002, as part of the Plan of Arrangement, all of the shares of Parkland Industries Ltd. were indirectly exchanged for Units in the Fund or for Class B Limited Partnership Units ("LP Units") in Parkland Holdings Limited Partnership, a limited partnership controlled by the Fund, on the basis of two Fund Units or two LP Units for each share. The following share information has been amended to reflect the effective 2 for 1 split:

Issued - Common Shares

	DECEMBER 31, 2002		JUNE 30, 2002	
	SHARES	AMOUNT	SHARES	AMOUNT
Balance, beginning of year	–	$ –	10,930,176	$ 16,722
Repurchased pursuant to normal course issuer bid	–	–	(15,200)	(80)
Issued pursuant to exercise of employee stock options	–	–	1,170,000	5,410
Exchanged for Fund Units	–	–	(5,155,156)	(9,407)
Exchanged for Class B Limited Partnership Units	–	–	(6,929,820)	(12,645)
	–	$ –	–	$ –

6. Unitholders' Capital

An unlimited number of Fund Units and LP Units may be created and issued, pursuant to the Fund Declaration of Trust and the Amended and Restated Limited Partnership Agreement, respectively, as outlined in the Plan of Arrangement.

Fund Units represent an undivided interest in the Fund. LP Units represent a partnership interest in Parkland Holdings Limited Partnership and are exchangeable on a one-for-one basis into Fund Units. Both Fund Unitholders and LP Unitholders are entitled to vote at meetings of the Fund and are entitled to distributions from time to time as determined by the Board.

	DECEMBER 31, 2002 UNITS	JUNE 30, 2002 UNITS
CLASS B LIMITED PARTNERSHIP UNITS		
Balance, beginning of period	6,929,820	–
Issued upon exchange of common shares	–	6,929,820
Exchanged for fund units	(1,355,601)	–
Balance, end of period	5,574,219	6,929,820
FUND UNITS		
Balance, beginning of period	5,196,893	–
Issued upon exchange of Class B Limited Partnership units	1,355,601	–
Issued upon exchange of common shares	–	5,155,156
Issued as special compensation	–	41,737
Balance, end of period	6,552,494	5,196,893
	12,126,713	12,126,713

On June 19, 2002, the shareholders of Parkland Industries Ltd. approved a Unit Option Plan and a Long-term Incentive Plan for the Fund.

The Unit Option Plan provides for the granting of options to purchase Fund Units by trustees, directors, officers, employees and consultants of the Fund. The terms and conditions, exercise price and terms of vesting are to be determined by the Board of Directors. No grants were made under the Unit Option Plan for the periods ended December 31, 2002 and June 30, 2002. Subsequent to December 31, 2002, the Fund has granted 331,000 Unit Options under the Unit Option Plan.

The Long-term Incentive Plan provides for the payment of bonuses to trustees, directors, officers and key employees of the Fund. At the end of each fiscal year, the Fund may set aside a predetermined amount based upon performance of the Fund, to be utilized to purchase Fund Units from the market, or to subscribe to Units from the Fund. The entitlement to payment, level of participation, distributable cash thresholds and vesting provisions under the Plan are to be determined by the Board of Directors. No awards have been made under the Plan.

The number of Fund Units which may be issued under the Unit Option Plan and Long-term Incentive Plan is limited to an aggregate of 1,000,000 Units.

7. Income Taxes

Income tax expense varies from the amounts that would be computed by applying the Canadian Federal and Provincial income tax rates to earnings before provision for income taxes as shown in the following table:

	SIX MONTHS DECEMBER 31, 2002 AMOUNT OF	%	TWELVE MONTHS JUNE 30, 2002 AMOUNT OF	%	TWELVE MONTHS JUNE 30, 2001 AMOUNT OF	%
Provision for income taxes at statutory rates	$ 4,159	39.12	$ 7,568	39.57	$ 4,666	41.62
Add (deduct) the tax effect of:						
Income earned in limited partnership	(3,018)	(28.38)	(191)	(1.00)	–	–
Processing rate adjustment	(97)	(0.92)	(764)	(3.99)	(653)	(5.83)
Large Corporation Tax/ Capital Taxes	175	1.65	185	0.97	231	2.06
Change in tax rates	–	–	141	0.74	263	2.35
Non-taxable portion of gain on sale of listed securities, goodwill and fixed assets	–	–	–	–	(805)	(7.18)
Non-allowable amortization	–	–	122	0.64	155	1.39
Non-deductible expenses	–	–	21	0.11	26	0.24
Other	–	–	152	0.80	2	0.01
	$ 1,219	11.47	$ 7,234	37.84	$ 3,885	34.66

Capital assets and inventories held directly by the Limited Partnership, having carrying values of $48,641,664 (June 30, 2002 - $44,835,273) and $7,954,280 (June 30, 2002 - $5,916,887), have tax basis of $43,986,605 (June 30, 2002 - $40,441,828) and $8,920,224 (June 30, 2002 - $7,641,034), respectively.

8. Operating Leases

The Fund is committed to total minimum rentals in the amount of $4,153,746 under operating leases for land and buildings and equipment. Minimum lease payments for each of the five succeeding years are as follows:

2003	$ 1,278
2004	1,016
2005	794
2006	532
2007	378

9. Financial Instruments

The fair value of accounts receivable, bank indebtedness, accounts payable and income taxes payable are equal to their carrying values due to their short term maturities. The fair value of long-term bank loans equal their carrying values as their interest rates fluctuate with the prime lending rate. The Fund may elect to utilize interest rate swaps and make non-permanent repayment of the loans. The carrying values and fair values of mortgages and loans receivable, conditional sales contracts, equipment loans, capital leases, mortgages payable, agreements for sale and unsecured notes payable are as follows:

	December 31, 2002		June 30, 2002	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Mortgages and loans receivable	$ 1,306	$ 1,788	$ 1,452	$ 1,891
Mortgages payable	8,081	8,114	8,642	8,709
Conditional sales contracts, equipment loans and capital leases	7,607	7,615	8,061	8,112
Notes payable	407	409	488	493

Fair values of mortgages and loans receivable, and long-term debt are estimated using discounted cash flow analysis based upon incremental borrowing rates for similar borrowing arrangements.

The Fund does not have a significant exposure to any individual customer. The Fund reviews a new customer's credit history before extending credit and conducts regular reviews of its existing customers' credit performance.

10. Conditional Refinery Disposition

On December 16, 1998, the Fund entered into a Letter of Intent to sell its refinery to the Blood Tribe/Kainaiwa Specific Claim Trust No. 1 of Standoff, Alberta. The offer is subject to a number of conditions, the satisfactory completion of which cannot reasonably be determined. Under the terms of the offer, approval of the creation of a Reserve must be granted by the Federal Department of Indian & Northern Affairs. Should the conditions be satisfied, the Fund would receive proceeds of $50,000,000 for its refinery, tank farm and related process equipment and support systems. The gain on sale would be approximately $15,000,000 over the term of the purchase agreement, net of applicable taxes, subject to capital additions, disposals and amortization occurring in the intervening period. The Fund would manage the operations of the refinery under a management agreement with the Blood Tribe/Kainaiwa Specific Claim Trust No. 1 and would market all product produced by the refinery.

11. Temporary Suspension of Refining Operations

In September 2001, the Fund suspended operations at its refinery. The suspension will likely continue until the cost of feedstock decreases relative to the price of crude oil or the Fund completes the sale of the refinery. Refining equipment with a carrying value of $21,906,701 is not being amortized until it has been returned to service.

12. Net Changes in Non-cash Working Capital

	SIX MONTHS DECEMBER 31, 2002	TWELVE MONTHS JUNE 30, 2002	TWELVE MONTHS JUNE 30, 2001
Accounts receivable	$ 8,426	$ (5,662)	$ 224
Inventories	(585)	3,680	(12,222)
Prepaid expenses	162	(70)	774
Accounts payable	(18,836)	6,633	5,520
Income taxes payable	(942)	(287)	2,053
	$ (11,775)	$ 4,294	$ (3,651)
Other Cash Flow Information:			
Cash taxes paid	$ 72	$ 6,717	$ 3,140
Cash interest paid	$ 462	$ 794	$ 619

13. Segmented Information

The Fund's operations are predominantly in fuel marketing in Western Canada. In recent years, the Fund initiated operations in the convenience store industry.

The convenience stores have been integrated into fuel marketing properties already owned by the Fund and all continue to market transportation fuels. Due to the amount of common operating and property costs it is not practical to report these segments below the gross margin.

Similarly, it is not practical to segregate capital expenditures or cash flows from these segments.

	FUEL MARKETING	MERCHANDISE	TOTAL
Six months December 31, 2002			
Net sales and operating revenues	$ 247,632	$ 12,596	$ 260,228
Cost of sales	212,735	9,568	222,303
Gross margin	$ 34,897	$ 3,028	$ 37,925
Twelve months June 30, 2002			
Net sales and operating revenues	$ 424,969	$ 17,590	$ 442,559
Cost of sales	358,270	12,777	371,047
Gross margin	$ 66,699	$ 4,813	$ 71,512
Twelve months June 30, 2001			
Net sales and operating revenues	$ 484,666	$ 9,816	$ 494,482
Cost of sales	426,893	7,475	434,368
Gross margin	$ 57,773	$ 2,341	$ 60,114

CORPORATE INFORMATION

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Annual General Meeting

Thursday, May 8, 2003
4 p.m. at the Black Knight Inn
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Chartered Accountants
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Andrew B. Wiswell

Officers

Andrew B. Wiswell
President and Chief Executive Officer

Thomas H. Chapman
Corporate Secretary

John G. Schroeder
Vice President, Finance/CFO

Randy K. Nicholls
Controller, Wholesale

Kelly G. Collier
Controller, Retail

Wholly-Owned Subsidiaries

Parkland Investment Trust
986413 Alberta Ltd.
Parkland Holdings Limited Partnership
986408 Alberta Ltd.
Parkland Industries Limited Partnership
Parkland Industries Ltd.
Parkland Refining Ltd.

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